

Micap plc

Interim results for the six months to 30th September 2004

Micap plc (“Micap” or the “company”) today reports its interim results for the six months to 30th September 2004.

Micap’s principal business activity is the development, production and licensing of microencapsulation technology based on single cell organisms, in particular yeast. These organisms can be used as capsules to protect and deliver active ingredients including flavours, agrochemicals and pharmaceuticals.

HIGHLIGHTS

- Significant scientific and commercial progress in all major fields of operation
- Reduced loss per ordinary share of 2.4p (six months to 30th Sept 2003 - loss 2.6p) from an after tax loss of £0.68 million (2003 - loss £0.57m)
- Strong cash and short term debtor position of £2.27 million at 30th Sept 2004 (2003: £3.61m)
- Global launch of Thermarome, a Firmenich flavour brand created utilising the Micap technology
- Major breakthrough in the scientific understanding of fungicide and herbicide applications, leading to planned field trials with world leading agrochemical company
- Commencement of Clinical Trial into effect of encapsulated essential oils in treatment of MRSA infections
- Acquisition of Applied Analysis Ltd supports opportunities in pharmaceuticals and encapsulated natural oils and plant extracts for veterinary, pest control and nutraceutical applications

Commenting on the results, Michael Brennand, Chief Executive of Micap, said:

“We have made important progress in our various fields of operation this year and are particularly pleased with the developments made in the Micap Specialties part of the business, where studies into the use of our technology in fungicides showed promising results. In addition, we have progressed with our flavouring business and products using Micap’s technology have now reached supermarket shelves. It is also pleasing to see the interest generated in our encapsulated natural oils for use in nutraceutical and natural health products, and we are confident that this new area of business opportunity will be very exciting for us.”

Chief Executive's statement

This has been another period of significant progress for Micap, both in terms of commercial opportunities, and scientific advancement.

A number of major milestones have been achieved in the period, and I will review each of these in detail under the relevant group company. One area which has been of particular satisfaction is the positive results of our research studies into herbicide and fungicide applications with our research partners at the University of Nottingham, Central Science Laboratory (York) and Harper Adams University College. We had been disappointed at the time of our preliminary results report to announce the curtailment of previous trials in this field, due to technical issues. The progress made since this time has allowed us to build up a portfolio of IP, know-how and scientific data in which commercial partners are now interested. We are now in a stronger position in the agrochemical field than ever before.

The rigorous processes which must be undertaken before an agreement with a commercial partner can be obtained can extend lead times to commercialisation. Nevertheless it is imperative that we have the scientific understanding of our technology's benefits to each field in which we operate, and I am confident that this approach is in the best interest of shareholders.

We have also taken steps to ensure that Micap is not dependent on operating solely in areas where products take a long time to come to market, such as is the case in the pharmaceuticals sector. Consequently we have made important progress in our flavourings and agrochemicals businesses. This provides us with a balanced pipeline of short, medium and long term opportunities.

I am pleased to announce today the acquisition of Applied Analysis Ltd, which has provided us with a great deal of know-how and experience in extraction, analysis and formulation, not just of pharmaceutical compounds, but also of plant extracts and natural oils. We are currently evaluating a number of projects in nutraceuticals and natural health products, which is a new business opportunity for Micap, and we are excited about this opportunity.

Financial review

At the end of the half-year, the cash and short term debtor position was £2.27 million (Sept 2003: £3.61m). In addition, a further £0.12 million of R&D tax credit has been provided for in the period. We are fundamentally aware of the importance of cash control in our business, and are taking every step to minimise the cash burn.

The loss after tax was £0.68m (2003: loss £0.57m) which represents a loss per ordinary share of 2.4p (Sept 2003: loss 2.6p). Turnover was £0.12m (2003: £0.28m), from a variety of development and licensing agreements, particularly the licence to Firmenich, Micap's commercial partner in the flavours field.

Micap flavours

We are delighted to report that Firmenich, our global flavour partner, has now officially launched Thermarome, a branded flavour technology created utilising the Micap technology. Firmenich has also exercised its option to extend the licence to all flavours, with an increased licence fee and the prospect of further royalties outside of the initial applications in savoury foods.

Thermarome is being promoted to a worldwide audience of international food companies as an encapsulation technology offering high temperature stability, free flowing powder (for ease of handling) and optimised flavour release in the mouth. Particular benefits are offered to flavoured fried products such as batters, coatings, noodles, potato and tortilla chips. We are confident that the marketing effort being put into this launch by Firmenich will lead to significant royalties to Micap over the coming years.

Micap has also been involved in directly marketing its flavouring technology to food manufacturers and we have made a number of direct sales. Products made using Micap's technology are now on supermarket shelves, including an own brand of healthy eating Naan bread and a market leading flavoured tortilla wrap. We remain optimistic that revenues in this area will grow in the future.

Micap Specialties

We are particularly pleased with the progress Micap has made in the agrochemicals sector having revisited our offer in the sector by commissioning studies in the fungicides, herbicides and pesticides fields. This important move comes after the pesticide trials we previously undertook with a multinational partner at the time of our flotation did not produce the expected results and we could not take that particular relationship forward.

Fungicides

Recent results from a study carried out by the Plant Sciences Division of the University of Nottingham have shown that the commonly used fungicide tebuconazole encapsulated in Micap yeast was more effective at treating stem and ear blight infections caused by the *Fusarium* fungus than the commercial unencapsulated formulation Folicur, which contains the same active ingredient.

Fusarium species cause many diseases, such as ear rot in corn and head blight and scab in wheat, affecting plant growth and crop yield. Losses each year for US wheat farmers are estimated at close to \$1 billion. In addition the mycotoxins such as deoxynivalenol (DON) produced by these fungi contaminate crops and can be found in the grains and grain products for human and animal food, causing serious liver and kidney diseases.

The study showed that Micap encapsulated tebuconazole dramatically reduced the mycotoxin levels in wheat grains after treatment. DON concentrations were up to 5 fold lower in grain following treatment with Micap encapsulated tebuconazole compared with the Folicur applied at the same rate.

Micap encapsulated tebuconazole offers, for the first time, the potential of controlling mycotoxin levels in grain below 0.75ppm, the target level recommended by the European Union.

Micap plc now intends to develop this technology for commercial exploitation, and is in discussions with a major international agrochemical company regarding commencement of jointly managed field trials, in which Micap will play a more prominent role than in the previous pesticide field trials.

The opening up of these new opportunities is a highly promising development, and we have presented our technology at the recent British Crop Protection Conference in Glasgow to great interest.

Herbicides and Pesticides

In addition to fungicides, independent research has shown Micap's encapsulation technology to enhance the efficacy of herbicides and insecticides. This was established in glasshouse trials at the Harper Adams University College, which compared a commercial formulation of MCPA with a Micap encapsulated version applied by spraying at the same concentration. The commonly used herbicide MCPA, when encapsulated using Micap technology, shows greater efficacy against common weeds such as chickweed and bindweed.

Another clear benefit of Micap encapsulation is the reduced toxicity to beneficial insects such as bees. Work carried out at the Central Science Laboratories in York on ecotoxicity have demonstrated that Micap encapsulated α cypermethrin, a commonly used insecticide against the bee pest Varroa mite, is less toxic to the bees than the commercial equivalent, which is significant

because there has been a recent trend to withdraw certain commercial agrochemicals on account of their ecotoxicity.

Each of these areas offers significant commercial opportunity, and the Micap business development team is focussing its efforts on identifying commercial partners.

Biocides

We are also able to report further progress in using Micap technology for biocidal applications. This is of particular relevance where increasing regulatory controls, such as the European Union's Biocides Product Directive, require risk assessment of biocide actives. The Micap technology can play its role in maximizing biocidal efficacy whilst limiting environmental impact. Preliminary studies on release have been promising with future trials on biological efficacy and marine performance planned for the next few months.

Two of the world's leading speciality chemical companies are also evaluating Micap formulations of their biocides. These biocides are used in marine paints and coatings, wood preservation and personal care. Trials are planned in the next few months for a number of biocides including one of the most commonly used preservatives in personal care.

The agrochemical and biocide industries are undergoing significant change currently, due to environmental legislation and market pressure to reduce exposure to toxic substances. The Micap technology is well positioned to play a major role in these developments, where the shorter lead times and large market sizes represent an important market opportunity for Micap.

Micap Healthcare

We continue to make progress with our partners in Pharmaceuticals, with SkyePharma, our first licensee in the field, selecting their first option drug candidate in August of this year. We also continue to work on projects with AstraZeneca.

Particularly of interest in our activities have been the results of recent *in-vitro* studies carried out into antifungal activity, whereby bioavailability of a topical drug such as econazole nitrate is improved considerably upon encapsulation. The efficacy of the drug is enhanced in terms of both active required and speed of action. Furthermore, rapid, effective delivery through skin samples was observed from water based formulations (e.g. Hydrogels).

We also have a number of specific research projects underway. Discussions with Fertin Pharma, the world's largest manufacturer of Medical chewing gum, are continuing over the opportunities for the Micap technology in this field, whilst we are working with scientists from BioProgress plc into opportunities in smoking cessation products. We have also received a grant from the government's Nanotechnology initiative to carry out research into the prevention of microbial colonisation of polyurethane based catheters, in conjunction with Biomer Technology Ltd and Manchester Metropolitan University.

One of the most exciting areas of progress has been in the potential use of encapsulated natural oils and plant extracts in the treatment of medical conditions. In July of this year, we commenced a Clinical Trial of our Micap encapsulated biocide and essential oil product for the control of MRSA. We are currently in the process of recruiting up to 40 patients who have been diagnosed as having MRSA on their skin, and in addition to the safety factors usually considered during Phase 1 trials, this study will also investigate the efficacy of the product on patients in the trial. The length of the trial will be determined by the speed at which we are able to collect suitable volunteers.

I can also announce today that we have undertaken research into the use of the Micap encapsulated essential oils in the cleaning of hospital environments. In work carried out by Dr Sue Stevenson, Senior House Officer in the Burns Unit at Wythenshawe Hospital in Manchester, the essential oil treatment was demonstrated to significantly reduce the bacteria counts within outpatient

consultation rooms. The bacterial counts were monitored by a team at Manchester Metropolitan University under the direction of Dr. Valerie Edwards-Jones, Assistant Research Director/ Reader in Medical Microbiology, co-inventor of the antimicrobial technology. Dr Edwards-Jones said "These results are very encouraging, particularly as a part of Micap's integrated approach to combating MRSA infection. They complement our Clinical trial into controlling MRSA infection in burns patients, where patient recruitment is well underway"

We have identified a major opportunity to introduce the Micap technology into the field of nutraceuticals and functional foods, where the benefits of stability, protection and delivery that Micap can bring to natural oils and plant extracts allow the creation of new and varied products. Projects initiated in the period are as diverse as the use of garlic oil as a natural pesticide, eucalyptus oil as an additive to animal feed and a plant extract as a potential preventative medicine for malaria.

The regulatory hurdles in this sector are considerably lower than other fields, and the time to market is much shorter. Accordingly, this is an area in which we feel Micap has the opportunity to secure significant shareholder value. We are in discussions with a number of manufacturers and distributors of Natural Health products and functional foods to identify products to which we can bring increased efficacy.

Acquisition of Applied Analysis Ltd ("Applied")

To accelerate the commercialisation of the Micap technology, and in order to capture a greater share of the value of the products, we have identified a number of opportunities to add complementary businesses to the Group.

As mentioned above, I can announce today that Micap has acquired the entire share capital of Applied Analysis Ltd ("Applied"), a pharmaceutical services company based in Beverley near Hull, UK. It was co-founded 20 years ago by its principal scientist and proprietor Dr Ian Flockhart. The company's expertise covers a wide range of activities, including formulation development, chemical analysis, stability and dissolution testing as well as clinical trial and Qualified Person release services all performed to the appropriate pharmaceutical regulatory standards. It has a well-established international pharmaceutical customer base.

Applied also has significant experience in the extraction, processing and formulation of plant extracts and natural products. The ability to prepare tablets, capsules, creams and gels incorporating Micap encapsulations will facilitate the introduction of potential new products to the Pharmaceutical and Natural Health markets, and open up new commercial opportunities to Micap. Furthermore, considerable synergies have already been identified with the Micap business, such as the sharing of analytical and other scientific equipment, capabilities and know-how.

In the latest financial year, Applied had revenues of c.£300k, and the transaction will be cash positive in its first year.

Prospects

In order to balance our portfolio, we are endeavouring to develop products that have a shorter lead time in coming to the market. The nutraceutical, biocide and agrochemical markets provide significant opportunities to do this, and we believe that the progress we have made in the last half year will enable us to obtain commercial relationships in each sector in the coming months. Together with our relationships in pharmaceuticals, we feel that we now have a strong mix of short, medium and long term opportunities.

We are confident that our revenue opportunities, together with rigorous cost control, will enable us to attain profitability within the horizon provided by our current cash balances.

MICAP PLC

Consolidated Profit and Loss Accounts

		6 months to 30/09/04	6 months to 30/09/03	Year ended 31/03/04
	Notes	£'000	£'000	£'000
Turnover		120	275	900
Research and development		(604)	(586)	(1055)
General and administrative expenses		(352)	(353)	(762)
Operating loss		(836)	(664)	(917)
Net interest receivable		34	15	66
Loss on ordinary activities before taxation		(802)	(649)	(851)
Tax credit for the financial period	6	121	80	203
Retained loss for the period	3	(681)	(569)	(648)
Loss per Ordinary share	2	(2.4)	(2.6)	(2.61)

Statement of total recognised gains and losses

	6 months to 30/09/04	6 months to 30/09/03	Year ended 31/03/04
	£'000	£'000	£'000
Loss for the period	(681)	(569)	(648)
Total recognised gains and losses relating to the period	(681)	(569)	(648)

Consolidated balance sheet as at 30 September 2004

	Notes	30 Sept 2004	30 Sept 2003	31 Mar 2004
		£000	£000	£000
Fixed assets				
Intangible assets		733	776	757
Tangible assets		391	380	404
Investments		188	188	188
		<u>1,312</u>	<u>1,344</u>	<u>1,349</u>
Current Assets				
Debtors		1,074	587	886
Cash at bank and in hand		2,600	3,247	3,323
		<u>3,674</u>	<u>3,834</u>	<u>4,209</u>
Creditors: Amounts falling due within one year		<u>(1,401)</u>	<u>(828)</u>	<u>(1,292)</u>
Net current assets		<u>2,273</u>	<u>3006</u>	<u>2,917</u>
Total assets less current liabilities		<u>3,585</u>	<u>4,350</u>	<u>4,266</u>
Creditors: Amounts falling due after more than one year		<u>(35)</u>	<u>(35)</u>	<u>(35)</u>
Net assets		<u>3,550</u>	<u>4,315</u>	<u>4,231</u>
Capital and reserves				
Called up share capital	3	10,334	10,334	10,334
Share premium account		5,977	5,981	5,977
Profit and loss account		(12,761)	(12,000)	(12,080)
		<u>3,550</u>	<u>4,315</u>	<u>4,231</u>
Shareholders' funds		<u>3,550</u>	<u>4,315</u>	<u>4,231</u>

Consolidated cash flow statements

	Notes	6 months 30/9/04 £'000	6 months 30/9/03 £'000	Year to 31/3/04 £'000
Net cash outflow from operating activities	4	(853)	(1,680)	(2,936)
Returns on investments and servicing of finance				
Interest received		40	16	67
Interest paid		(6)	(1)	(1)
		<u>34</u>	<u>15</u>	<u>66</u>
Net cash inflow from returns on investment And servicing of finance				
Taxation		-	-	328
Capital expenditure and financial investment				
Purchase of tangible assets		(32)	(23)	(95)
Purchase of investment		-	(88)	(88)
		<u>(32)</u>	<u>(111)</u>	<u>(183)</u>
Net cash outflow from capital expenditure and financial investment				
Cash outflow before financing		(851)	(1,776)	(2,725)
Financing				
Issue of shares		-	4606	4,602
Capital element of finance lease rental payments		-	(1)	(1)
		<u>-</u>	<u>4605</u>	<u>4,601</u>
Cash inflow from financing				
(Decrease)/increase in cash in the period 5		<u>(851)</u>	<u>2829</u>	<u>1,876</u>

Notes to the interim financial statements

1. Preparation of the financial statements

The interim results have been prepared in accordance with the accounting policies set out in the Group's annual accounts to 31 March 2004 and are unaudited. The interim financial statements were approved by a duly appointed and authorised committee of the Board of Directors on 8th November 2004.

2. Loss per Ordinary share

	Six Months to 30/09/2004	Six Months to 30/09/2003	Year to 31/03/2004
Loss on ordinary activities after tax	£(681,138)	£(568,985)	£(648,407)
Average number of shares in issue	28,825,229	21,796,781	24,830,730
Loss per ordinary share	(2.4p)	(2.6p)	(2.61)p

The effect of dilutive share options outstanding at 30 September 2004 would be to reduce the loss per ordinary share.

3 Movement in capital and reserves

The movement in capital and reserves during the period was as follows:-

	Share capital £'000	Share premium £'000	Profit and loss account £'000
At 1 April 2004	10,334	5,977	(12,080)
Loss for the period	-	-	(681)
At 30 September 2004	10,334	5,977	(12,761)

4. Reconciliation of operating loss to net cash outflow from operating activities

	6 months 30/9/04 £'000	6 months 30/9/03 £'000	Year to 31/3/04 £'000
Operating loss	(836)	(664)	(917)
Amortisation of goodwill	23	20	40
Depreciation charges	46	42	89
Increase in debtors	(68)	(404)	(580)
Decrease in creditors	(18)	(674)	(768)
Decrease in provisions	-	-	(800)
	<hr/>	<hr/>	<hr/>
Net cash outflow from operating activities	(853)	(1,680)	(2,936)
	<hr/>	<hr/>	<hr/>

5. Reconciliation of net cash flow to movement in net funds

(Decrease)/increase in cash for the period	(851)	2829	1876
Cash inflow from decrease in debt and lease financing	-	1	1
	<hr/>	<hr/>	<hr/>
Change in net funds resulting from cash flows	(851)	2830	1877
	<hr/>	<hr/>	<hr/>
Movement in net funds in the period	(851)	2830	1877
Opening net funds	2294	417	417
	<hr/>	<hr/>	<hr/>
Closing net funds	1443	3247	2294
	<hr/>	<hr/>	<hr/>

6. Taxation on loss on ordinary activities

	30 Sept 2004 £'000	30 Sept 2003 £'000	31 March 2004 £'000
United Kingdom corporation tax being research and development expenditure taxation credit	(121)	(80)	(214)
Adjustment in respect of prior periods	-	-	11
	<u>(121)</u>	<u>(80)</u>	<u>(203)</u>

The tax assessed for the period differs from the effective rate of corporation tax in the United Kingdom. The differences are reconciled below:-

Loss on ordinary activities before tax	(802)	(649)	(851)
Loss on ordinary activities at the effective rate of corporation tax in the UK of 19%	<u>(152)</u>	<u>(123)</u>	<u>(162)</u>
Effect of:			
Expenses not deductible for tax purposes	8	19	8
Capital allowances for period in excess of depreciation	(1)	(10)	(1)
Movement in tax losses	56	62	(3)
Research and development adjustment	(55)	(42)	(97)
Research and development	23	14	41
Adjustment in respect of prior periods	-	-	11
	<u>(121)</u>	<u>(80)</u>	<u>(203)</u>
Current tax credit for the period	<u>(121)</u>	<u>(80)</u>	<u>(203)</u>

7. Dividend

The Directors have not declared an interim dividend.

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2004, which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2004.

Bowmans
Chartered Accountants